



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

March 8, 2011

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: William T Fujioka
Chief Executive Officer

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First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

SACRAMENTO UPDATE

This memorandum provides an analysis of the major items included in the Conference Committee final budget package and the potential impact on the County.

As reported on the March 4, 2011 Sacramento Update, last week the Conference Committee approved the final budget plan for FY 2011-12, which addresses the State's \$26.6 billion budget deficit by approving \$12.5 billion in expenditure reductions, \$12.0 billion in revenue solutions, \$3.0 billion in special fund borrowing, and establishes a \$1.1 billion reserve. According to Senate President pro Tem Darrell Steinberg, the Senate is expected to vote on the Governor's Budget Proposal on Thursday, March 10, 2011, and it is anticipated that the Assembly will follow later this week.

Overall, the Conference Committee actions embraced most of the Governor's January Budget proposals, including the following key issues:

- \$11.2 billion in revenue solutions, subject to voter-approval, from the extension of existing tax increases by five years, including sales tax, vehicle license fees, personal income tax, and dependent exemption reductions;
- \$6.0 billion in cuts to various health and human services programs administered by the County, including CalWORKs, Medi-Cal, In-Home Supportive Services, Child Support Services, among others;
- \$5.9 billion from the shift of program and financial responsibilities for various public safety, child welfare services, adult protective services, and mental health programs from the State to counties, as proposed by the Governor's Revised Realignment Proposal. The Conference Committee action approves the framework of the Governor's proposal, but it is subject to a voter approval of a 5-year extension of existing sales tax and vehicle license fee rates.

"To Enrich Lives Through Effective And Caring Service"

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- \$1.7 billion in State General Fund savings from the elimination of redevelopment agencies and the establishment of new redevelopment authorities to carry out local economic development efforts; and
- \$861.0 million from the redirection of Mental Health Services Act (Proposition 63) funds from counties to cover State costs for the AB 3632 Program, Early Periodic Screening, Diagnosis and Treatment Program, and Mental Health Managed Care Program.

Estimated County Impact

Based on our preliminary review of the Conference Committee budget actions, the potential impact on the County would be an estimated \$426.9 million loss in FY 2011-12. Although the potential County impact is \$23.9 million less than the projected loss of \$450.8 million from the Governor's January Budget, the State fiscal crisis is far from being resolved and many of the proposals affecting the County may be reconsidered at any time.

Attachment I provides the estimated County impact of the major program proposals included in the Conference Committee final budget package and Attachment II provides detailed information by program.

Pursuit of County Position On State Budget Items

Consistent with your Board motion of December 14, 2010, County staff has been actively pursuing a partnership with the Administration and the Legislature on the development of solutions to address the State's fiscal crisis, including potential reductions to the County, if fashioned with reasonable solutions. However, as a result of the \$6.0 billion in funding reductions to various health and human services programs administered by the County and based on general policy to seek restoration of State Budget reductions and other policies included in the Board-approved State Legislative Agenda for 2011-12, **the County's Sacramento Office will advocate to preserve County funding and pursue mitigation of the adverse impact of recommendations affecting County programs and the residents we serve.**

We will continue to keep you advised.

WTF:RA
MR:OR:IGEA:sb

Attachments

c: All Department Heads
Legislative Strategist

ESTIMATED IMPACT TO LOS ANGELES COUNTY FROM THE FY 2011-12 STATE BUDGET PROPOSALS

	Governor's Budget Proposals (Revised)	Conference Committee Approved Budget
<u>Health</u>		
Medi-Cal Provider Payments Reduction	(10,000,000)	(10,000,000)
Medi-Cal Share of Cost for Services	(10,000,000)	(10,000,000)
Emergency Medical Services Funds (Maddy Funds) Reduction	0	(5,100,000)
<u>Mental Health</u>		
Redirection of Mental Health Services Act Funds ⁽¹⁾	(241,100,000)	(241,100,000)
<u>Social Services</u>		
CalWORKs Single Allocation Reductions ⁽²⁾	(175,700,000) ⁽³⁾	(129,800,000) ⁽⁴⁾
Potential Cost Shift from CalWORKs Reductions to General Relief	(77,400,000) ⁽⁵⁾	0 ⁽⁶⁾
Savings from CalWORKs Program Reductions	3,900,000	5,198,000 ⁽⁷⁾
Savings from IHSS Program Reductions	96,900,000 ⁽⁸⁾	TBD
Transitional Housing Program-Plus Reduction (THP-Plus)	(564,000)	TBD ⁽⁹⁾
Child Support Services Collections Suspension	(10,600,000) ⁽¹⁰⁾	(10,600,000)
Senior Employment Program Reduction	(1,100,000) ⁽¹¹⁾	(1,100,000)
<u>General Government</u>		
Delay of Deferred Mandate Payments (Prior to FY 2004-05)	(16,500,000)	(16,500,000)
Suspension of Most SB 90 Mandate Claims	(6,900,000)	(5,800,000)
Public Library Funds	(1,400,000)	(1,070,000)
Elimination of State Funds for Military & Veterans Programs	(344,000)	0
Agricultural Commissioner/Weights and Measures	0	(1,060,000)
TOTAL	(\$450,808,000)	(\$426,932,000)

Notes:

- (1) Estimate reflects the redirection of funds that would have been available to the County for Proposition 63 mental health services.
- (2) Estimate reflects 13-month period because the State Budget Proposals assume June 1, 2011 implementation of grant reductions.
- (3) Estimate reflects Single Allocation reduction carried over from 2010 State Budget Act (\$114.2 million) and new Single Allocation reduction (\$61.5 million) associated with CalWORKs reduction proposals.
- (4) Estimate reflects Single Allocation reduction carried over from 2010 State Budget Act (\$114.2 million) and new Single Allocation reduction (\$15.6 million). However, it is unclear at this time if any impact may be associated with the 8 percent grant reductions, 48-month time limit, and the reduction of Child Care services for 11 and 12 year-olds proposals.
- (5) Estimate assumes 50 percent of CalWORKs children/families, who would be terminated due to the 48-month time limit, apply for and are determined eligible for the County's General Relief Program.
- (6) The Conference Committee approved trailer bill language that would amend current statute which states any individual not eligible for CalWORKs due to 60-month limit shall not be eligible for General Relief until all children are age 18. The proposed change would apply that statute to those not eligible for CalWORKs due to 48-month time limit.
- (7) Estimate does not reflect the Governor's Revised Realignment Proposal to transfer \$1.077 billion statewide in 1991 Realignment revenue to fund the State's portion of increased county share of cost for CalWORKs grants, from 2.5 percent to 40.0 percent. DPSS estimates the County share would be approximately \$472.5 million. Based on the 1991 Realignment revenue allocation to community mental health programs and the projected CalWORKs caseload, we estimate this proposal would be underfunded by approximately \$64.3 million to \$132.9 million.
- (8) IHSS Program Reductions include: Across-the-board reduction to service hours, elimination of domestic and related services, and elimination of services for recipients without physician certification. Estimates include IHSS health insurance savings costs.
- (9) Defers THP-Plus funding to the Governor's Revised Realignment Proposal that would restore \$19.0 million to this program, proposed to be reduced in the FY 2011-12 Budget.
- (10) Estimate reflects \$3.62 million in State recoupment collections and Federal match of \$6.98 million.
- (11) Estimate reflects one-time only Federal funding, resulting in the elimination of about 115 slots for employment services for seniors.

This table represents the estimated loss/gain of State funds based upon the State Budget Proposals. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able to offset lost revenue.

FY 2011-12 Proposed State Budget Conference Committee Actions

Listed below are the budget items of importance to the County included in the Conference Committee Final Budget Package.

Health

Medi-Cal Provider Payment Reduction. The Conference Committee Final Budget Package includes the Governor's Budget proposal to reduce payments to Medi-Cal providers by 10.0 percent effective June 1, 2011. **The Department of Health Services (DHS) indicates that this proposal will result in an estimated County loss of \$10.0 million.**

Mandatory Medi-Cal Co-Payments. The Conference Committee Final Budget Package includes the Governor's Budget proposal to require co-payments for all Medi-Cal enrollees for physician and clinic visits, prescription drugs, hospital services, and dental services. **DHS indicates that this proposal will result in an estimated County loss of \$10.0 million, to the extent that the payments are uncollected.**

Maddy Fund Reduction. The Conference Committee Final Budget Package adopted a \$55.0 million reduction to the Maddy Fund which is used to compensate physicians and hospitals that provide emergency medical services to uninsured persons who cannot pay for medical care. **According to DHS, the Final Budget Package would result in a loss of \$18.0 million for emergency medical services and would impact all trauma contracts, Physician Services for Indigent Programs, in-custody claims, County hospitals and DHS' administrative costs for Emergency Medical Services. DHS indicates that this action would result in a County loss of approximately \$5.1 million which includes: \$4.4 million to Emergency Medical Services for the administration of the Maddy Fund, \$400,000 to County hospitals and \$300,000 for in-custody claims. The remainder would impact non-County hospitals and physicians who would receive lower payments from DHS as a result of the reduction in Maddy funds.**

Mental Health

Mental Health Services Act Funds. The Conference Committee Final Budget Package includes the Governor's Budget proposal of a one-time shift of \$861.0 million from the Mental Health Services Act (Proposition 63), which would have gone to counties, to the State General Fund to pay the State's obligation for the Mental Health Managed Care, Early and Periodic Screening, Diagnosis, and Treatment and the AB 3632 Special Education Programs. Beginning in FY 2012-13, funding and administration of these programs would be shifted from the State to counties under the Governor's Realignment Proposal. Although the Governor's Budget indicates that the

shift of Proposition 63 funds could be enacted by the Legislature, the Department of Mental Health believes that this proposal would violate the non-supplantation provision of Proposition 63 and requires passage of a voter-approved initiative. A similar ballot initiative failed in the May 2009 Special Election. **The Department of Mental Health indicates that this proposal would redirect approximately \$241.1 million in funds that would have been available for the County for Proposition 63 services.**

Social Services

CalWORKs. The Conference Committee Final Budget Package includes \$1.1 billion in statewide reductions to the CalWORKs Program as follows:

- **Single Allocation Reduction.** Approved an additional reduction of \$50.0 million for a total Single Allocation reduction of \$427.0 million. The CalWORKs Single Allocation funds eligibility administration, employment services, CalWORKs Stage One Childcare, and Cal-LEARN. **According to the Department of Public Social Services (DPSS), this action would result in an estimated County loss of \$129.8 million.**
- **48-Month Time Limit.** Approved a 48-month time limit for adults only, effective June 1, 2011, without altering policies regarding exemptions which would stop the 48-month time clock. This action would result in State General Fund savings of approximately \$13.0 million in FY 2010-11 and \$158.0 million in FY 2011-12. DPSS indicates that CalWORKs families would lose \$3.9 million in FY 2010-11 and \$47.5 million in FY 2011-12 in grant assistance. It is unclear at this time specifically how many CalWORKs families would be impacted in the County. **According to DPSS, the Conference Committee Final Budget Package would result in an estimated net County savings of \$100,000 in FY 2010-11 and \$1.2 million in FY 2011-12.**
- **Grant Reductions.** Approved an 8.0 percent grant reduction effective June 1, 2011, for a State General Fund savings of \$300.0 million. This action would reduce the CalWORKs grant for a family of three from \$694.00 to \$638.00 per month. **DPSS estimates that approximately 176,500 families, including 336,500 children that currently receive CalWORKs benefits in the County, would lose \$90.2 million in cash assistance and the County would save approximately \$2.3 million.**

Furthermore, the Final Budget Package adopted additional grant reductions to cases without aided adults after a certain period of time on aid, for a State General Fund savings of approximately \$100.0 million. **DPSS indicates that CalWORKs families would lose \$30.1 million in grant assistance. According to DPSS, this action would result in an estimated net County savings of \$753,000.**

- **CalWORKs Stage One Child Care.** Approved a reduction in CalWORKs Stage One Child Care for a State General Fund savings of \$69.0 million and adopted reduction in services for 11- and 12-year olds with certain exemptions such as children who are disabled, at-risk of abuse, or homeless. **There is insufficient information at this time to determine impact.**
- **Earned Income Disregard.** Approved a change to the Earned Income Disregard for working CalWORKs families and expanded the CalWORKs Subsidized Employment Program for a State General Fund savings of \$112.5 million. DPSS estimates a loss of \$33.8 million in grants to CalWORKs families in the County. It is unclear at this time specifically how many families would be impacted in the County. **According to DPSS, this action would result in an estimated net County savings of \$845,000 in FY 2011-12.**

In addition, the Conference Committee Final Budget Package would expand the State's participation in the CalWORKs Subsidized Employment Program, which was originally enacted under AB 98 (Chapter 589, Statutes of 2007). When coupled with the above reduction in the Earned Income Disregard, this action would be cost neutral to the County.

- **Additional Reductions.** Adopted reductions of: 1) \$45.0 million in the CalLEARN Program; 2) \$5.0 million for CalWORKs substance and mental health services; and 3) \$5.0 million for the Statewide Automation Welfare System to be determined through collaboration of the administration, legislative committee staff, Legislative Analyst's Office, and the counties. **There is insufficient information at this time to determine impact.**

In-Home Supportive Services (IHSS) Program. The Conference Committee Final Budget Package includes \$486.1 million in statewide reductions to the IHSS Program as follows:

- **IHSS Services for Recipients Without Physician Certification.** Eliminated IHSS services for recipients without a physician certification for a State General Fund savings of \$152.0 million in FY 2011-12.
- **Caseload Savings.** Achieved \$83.4 million in State General Fund savings from caseload adjustments in FY 2010-11 and FY 2011-12 based on demonstrated and more recent numbers of recipients and hours paid.
- **Community First Choice Options.** Approved \$121.0 million in State General Fund savings achieved through expected approval of an additional 6.0 percent in FMAP as a result of IHSS qualifying under the new Federal Community First Choice Options.

- **State Funding for IHSS Advisory Committees.** Approved the elimination of State General Fund support for local IHSS Advisory Committees and eliminate the mandate, while retaining \$3,000 for each of the 56 Public Authorities (PA) to support the continued operation of Advisory Committees within the budget for PAs for an estimated savings of \$1.4 million in FY 2011-12.

The Department of Public Social Services is working to determine the impact of the above proposals to the County.

- **Additional Savings.** Adopted savings of \$128.4 million with placeholder trailer bill language from proposals to be determined. **There is insufficient information at this time to determine impact.**

Transitional Housing Program-Plus (THP-Plus). The Conference Committee Final Budget Package defers the issue of funding for the THP-Plus to the Governor's proposal to realign Foster Care and Child Welfare Services. The Governor's Revised Realignment Proposal would restore \$19.0 million in FY 2011-12 to the THP-Plus for 18- and 19-year old foster youth proposed to be reduced in the FY 2011-12 Budget. The Senate Budget Committee approved a \$5.0 million reduction to the program. The Assembly Budget Committee adopted the Governor's Budget proposal to reflect savings as a result of the implementation of AB 12 which extends foster care services to youth up to 21 years of age, and provides funding of \$16.8 million for youth served in the program who are not served by AB 12. The \$19.0 million restoration of funding would restore an estimated loss of \$564,000 and 21 beds to the Department of Children and Family Services.

Child Support Collections Suspension. The Conference Committee Final Budget Package includes the Governor's Budget proposal to suspend the County share of child support recoupment collections in FY 2011-12 estimated to be \$24.4 million statewide. Currently, counties are entitled to retain 2.5 percent of child support collections. This would be retained at the State level and benefit the State General Fund under the Governor's proposal. **The Department of Child Support Services indicates that the County collects and retains approximately \$3.62 million in recoupment collections per year which would be suspended under the Governor's Budget proposal. The \$3.62 million in recoupment collections are used to maintain current service levels for the County's child support program and also helps the County draw down a Federal match of 66.0 percent, resulting in a total potential estimated County loss of \$10.6 million.**

Senior Employment Program Reduction. The Conference Committee Final Budget Package includes the Governor's Budget proposal to reduce Federal funding by \$4.1 million, for the Title V - Senior Employment Program which provides part-time, work-based training opportunities for seniors aged 55 and over who have challenging employment prospects and assists with the transition of individuals to unsubsidized employment. **The Department of Community and Senior Services estimates that the County will lose approximately \$1.1 million in one-time only Federal funding,**

resulting in the elimination of about 115 slots for employment services for seniors.

General Government

State Mandates. The Conference Committee Final Budget Package includes the Governor's Budget proposal to maintain the suspension of \$227.8 million in mandates not related to law enforcement and the proposed deferral of \$94.0 million as a result of deferring payment for costs incurred prior to FY 2004-05, for a State General Fund savings of \$63.0 million. However, the Conference Committee rejected the Governor's proposal to suspend the Brown Act open meeting mandates in FY 2011-12. **The deferral of mandate payments would result in an estimated County loss of \$16.5 million, and the suspension of State Mandates would result in an estimated County loss of approximately \$5.8 million based on FY 2009-10 claims.**

Public Library Funds. The Conference Committee Final Budget Package includes the reduction of \$15.0 million to Local Assistance Programs, including the Public Library Foundation, California Library Literacy and English Acquisition Services, and the California Library Services Act. **The Public Library indicates that this action would result in the County loss of \$1.07 million in funding for books and materials.**

Military and Veterans Programs. The Conference Committee Final Budget Package includes the restoration of State General Fund support for County Veterans Services Offices (CVSOs) and Operation Welcome Home to achieve \$7.1 million in State General Fund savings by delaying the opening of veterans homes and phasing in levels of care. The Governor's Budget proposed the elimination of State General Fund support for CVSOs and Operation Welcome Home for a State General Fund savings of \$9.9 million. The County Department of Military and Veterans Affairs indicates that the State Department of Finance confirmed that the elimination of some State support to CVSOs would affect a total of 125,000 veterans, not including their dependents and survivors. **This action will result in a \$344,000 restoration to the County.**

Environment and Natural Resources

Department of Food and Agriculture Baseline Reduction. The Conference Committee Final Budget Package adopts the Governor's Budget proposal to reduce the State General Fund by \$15.0 million for the California Department of Food and Agriculture (CDFA). **According to the Agricultural Commissioner/Weights and Measures (ACWM), this reduction would result in an estimated County loss of \$760,000 due to the repeal of AB 1896 of 2004, which requires the ACWM to staff year-round programs that are under an agreement with CDFA with permanent employees, and a loss of \$300,000 due to the reduction to the High Risk Pest Exclusion funding.**